March 29, 2012

Pat Perez
Deputy Director
Fuels and Transportation Division
California Energy Commission
Dockets Office, MS-4
Re: Docket # 11-ALT-1
1516 Ninth Street
Sacramento, CA 95814-5512

RE: 2012-2013 Investment Plan for the Alternative And Renewable Fuel and Vehicle Technology Program, Staff Draft

Dear Deputy Director Perez:

The California Biodiesel Alliance and the National Biodiesel Board thank you for this opportunity to comment on the "*2012-2013 Investment Plan for the Alternative and Renewable Fuel and Vehicle Technology Program Staff Draft.*" We wish to express our support and appreciation for two recently released diesel substitutes solicitations, one for $11.9 million applying to production plants and one for $3.14 million applying to infrastructure.

We are writing to strongly encourage the Energy Commission to reconsider its position on funding infrastructure for biodiesel going forward as stated in the following excerpt from the 2012-2013 Plan:

"However, given the anticipated growth of renewable diesel, as well as the uncertain economics for the continued growth of biodiesel, the Energy Commission does not intend to reserve funding for upstream diesel substitutes infrastructure in the 2012 - 2013 Investment Plan."

On January 15th of this year, nearly 200 industry members attended the inaugural California Biodiesel and Renewable Diesel Conference at the San Francisco Marriott Marquis. Attendees first received a detailed history of the biodiesel industry's boom and bust years in the state, citing our industry's regulatory hurdles and economic conditions that affected the industry from 2008-2010. Importantly, 2011 was cited as a stabilizing year with 2012 expected to be a profitable year for California's biodiesel industry with new plants coming online and increased production at existing plants expected to reach 20-25 million gallons. Total U.S. production of biodiesel reached a new high of nearly 1 billion gallons. U.S. renewable diesel production totaled approximately 90 million gallons.

We believe that California has the potential to become a national leader in both biodiesel and renewable diesel production and consumption. However, it is simply inaccurate to state that the economics of renewable diesel are superior to that of biodiesel. Superior economics is a primary reason why U.S. sales of biodiesel are more than 10 times that of renewable diesel. This is particularly true when renewable diesel is placed through an additional isomerization process to improve the fuel's cold flow properties.

In addition, as renewable diesel makes its way into the marketplace, it will be subject to all of the regulatory requirements that exist for new fuels, which biodiesel has been working through for some time – at great expense, we might add. For example, in June of this year, a new law allowing for the permanent storage of all blends of biodiesel in USTs will take effect. The biodiesel industry has been working with the State Water Board on this issue since early 2008.

Experts at the conference presented evidence that California's biodiesel industry—which produces most of its fuel from waste sources that can achieve LCFS carbon intensity values of 80% to 90%—can play a unique role in California's leadership in alternative fuels and in achieving the state's carbon reduction goals. We wish to make it clear that one extremely important key to achieving those goals is infrastructure, which currently is the main reason that California lags behind other states in biodiesel fueling.

Infrastructure for rail offloading, terminal storage, rack blending, and UST storage is the greatest immediate requirement for expansion of biodiesel fueling in our state. Biodiesel's low carbon benefits can only be fully realized through federal and state programs of RFS2 and LCFS with adequate infrastructure funding. We now know that obligated parties under RFS2 are complying in states where high quality infrastructure keeps costs down. The following are two very important points about the need for infrastructure funding and the fungibility of biodiesel:

<u>New infrastructure lowers fuel prices, is multi-fuel compatible, and cost effective</u>.

Biodiesel needs terminal access to enter the fuel supply, yet none of California's approximately 50 terminals have biodiesel storage or blending capabilities. This lack of terminal infrastructure increases costs by 10-25 cents per blended gallon (5-10 cents for storage and 3-15 cents for blending, which includes costs for trucks to make a second stop). Each terminal requires a $1-3mm capital improvement to enable storage and blending. A total investment of $50-150mm is paid back quickly by reduced costs. Because all required infrastructure is multi-fuel compatible with renewable diesel and ultra low sulfur diesel, infrastructure funding from CEC for these purposes would serve as an efficient way to benefit a range of fuel types.

<u>Biodiesel is a fungible or drop-in diesel fuel replacement, which is safe for use in all diesel engines.</u>

The U.S. Marines Corp was one of the first to dispel myths about biodiesel when it began running fleets on B20 without any modifications to vehicle engines or fuel systems in 2002. By 2006, 90% of Marine Corp bases and stations nationwide were using B20. According to the U.S. Department of Energy, a key ingredient in that success was the fact that B20 was able to be "seamlessly" integrated into the existing military infrastructure because, as a "drop-in" fuel, it could be transported, stored, and dispensed from the same equipment as petroleum diesel.

All major original engine manufactures include warranty statements supportive of biodiesel use at or below the B5 level. B5, which can be shipped in pipelines (except those used for jet fuel), was recently included in the petroleum diesel ASTM D975 specification, making it completely interchangeable with petroleum diesel for all practical and regulatory purposes. This blend is now widely accepted as an additive that provides needed lubricity to ultra low sulfur diesel.

In addition, a growing number of companies, including Ford, General Motors, Cummins, Toro, and John Deere, include statements supportive of use of biodiesel blends up to 20 percent (B20). Two-thirds of major engine companies have stated formally that they support the use of blends up to B20. It is anticipated that the entire industry will incorporate support for B20 by 2015.

In conclusion, we would respectfully request that the Energy Commission reevaluate its position on funding infrastructure for the biodiesel industry, which has the ability to provide substantial energy-independence, environmental, human health, and economic benefits. It would seem to us that the decision results from incorrect information and a general and continuing misunderstanding of the renewable fuels industry. As such, we would be happy to meet with the Energy Commission and its staff at a time of their choosing to provide additional pertinent information. If you should have any questions about this matter, please feel free to call Eric Bowen at 415-218-3766 at any time.

Sincerely,

Chairman
California Biodiesel Alliance

Director of State Government Affairs
National Biodiesel Alliance